

**Township of Washington  
Gratiot County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2004**

# AUDITING PROCEDURES REPORT

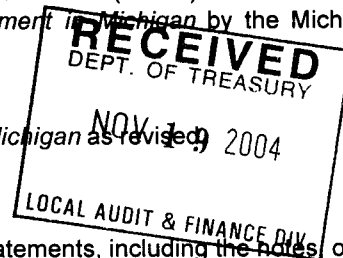
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Washington Township	County Gratiot
Audit Date 3/31/04	Opinion Date 10/13/04	Date Accountant Report Submitted to State: November 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised, 2004.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 108 Spring St.	City St. Johns	State MI	ZIP 48879
Accountant Signature <i>Abraham &amp; Gaffney, P.C. [Signature] CPA</i>			

Township of Washington

Gratiot County, Michigan

March 31, 2004

BOARD OF TRUSTEES

Donald Cook

Supervisor

Marilyn Whitford

Clerk

Ruth Whaley

Treasurer

Jay Mills

Trustee

Charles Misenhelder

Trustee

Township of Washington

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

Member:  
American Institute of Certified  
Public Accountants  
and  
Michigan Association of  
Certified Public Accountants

Karen A. Roka, CPA  
James A. Huguelet, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA  
Kurt M. Lemmen, CPA

**INDEPENDENT AUDITOR'S REPORT**

Members of the Township Board  
Township of Washington  
Ashley, Michigan

We have audited the accompanying general purpose financial statements of the Township of Washington, Michigan as of and for the year ended March 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Washington, Michigan as of March 31, 2004, and the results of its operations and cash flows of its proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund, and account group financial statements listed in the Table of Contents under Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Township of Washington, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 13, 2004

**GENERAL PURPOSE FINANCIAL STATEMENTS**

Township of Washington

BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP

March 31, 2004

	Governmental Fund Type  <u>General</u>	Proprietary Fund Type Enterprise (Pompeii Sewer)	Fiduciary Fund Type Trust and Agency	Account Group General Fixed Assets	Total (Memorandum Only)
<b>ASSETS</b>					
Cash and cash equivalents	\$ 113,341	\$ -	\$ 929	\$ -	\$ 114,270
Deposits with other governmental units	-	28,333	-	-	28,333
Investments	20,000	-	-	-	20,000
Receivable					
Interest	735	-	-	-	735
Special assessment	-	137,555	-	-	137,555
Usage	-	1,314	-	-	1,314
Delinquent tax	-	1,280	-	-	1,280
Due from other governmental units -					
Local	3,651	-	-	-	3,651
Due from other funds	929	-	-	-	929
Fixed assets (net of accumulated depreciation)	-	203,961	-	54,204	258,165
<b>TOTAL ASSETS</b>	<b>\$ 138,656</b>	<b>\$ 372,443</b>	<b>\$ 929</b>	<b>\$ 54,204</b>	<b>\$ 566,232</b>
<b>LIABILITIES AND FUND EQUITY</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 2,594	\$ -	\$ -	\$ -	\$ 2,594
Accrued liabilities	-	2,321	-	-	2,321
Due to other funds	-	-	929	-	929
Due to other governmental units	-	2,254	-	-	2,254
Loan payable	-	15,738	-	-	15,738
Bonds payable	-	96,473	-	-	96,473
<b>TOTAL LIABILITIES</b>	<b>2,594</b>	<b>116,786</b>	<b>929</b>	<b>-0-</b>	<b>120,309</b>
<b>FUND EQUITY</b>					
Contributed capital	-	320,538	-	-	320,538
Investment in general fixed assets	-	-	-	54,204	54,204
Retained earnings					
Unreserved - undesignated	-	( 64,881 )	-	-	( 64,881 )
Fund balance					
Unreserved - undesignated	136,062	-	-	-	136,062
<b>TOTAL FUND EQUITY</b>	<b>136,062</b>	<b>255,657</b>	<b>-0-</b>	<b>54,204</b>	<b>445,923</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 138,656</b>	<b>\$ 372,443</b>	<b>\$ 929</b>	<b>\$ 54,204</b>	<b>\$ 566,232</b>

See accompanying notes to general purpose financial statements.

Township of Washington

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GENERAL FUND

Year Ended March 31, 2004

REVENUES	
Taxes	\$ 22,567
Charges for services	600
Licenses and permits	500
Intergovernmental	64,973
Interest and rents	4,425
Special assessments	760
Other	<u>2,679</u>
TOTAL REVENUES	96,504
EXPENDITURES	
General government	49,555
Public safety	34,994
Public works	44,512
Health and welfare	2,200
Community and economic development	<u>780</u>
TOTAL EXPENDITURES	<u>132,041</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	( 35,537 )
Fund balance, beginning of year	<u>171,599</u>
Fund balance, end of year	<u>\$ 136,062</u>

See accompanying notes to general purpose financial statements.

Township of Washington

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND

Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 16,010	\$ 22,567	\$ 6,557
Charges for services	2,000	600	( 1,400 )
Licenses and permits	550	500	( 50 )
Intergovernmental	70,000	64,973	( 5,027 )
Interest and rents	7,100	4,425	( 2,675 )
Special assessments	1,100	760	( 340 )
Other	<u>50</u>	<u>2,679</u>	<u>2,629</u>
TOTAL REVENUES	96,810	96,504	( 306 )
EXPENDITURES			
General government	47,800	49,555	( 1,755 )
Public safety	17,000	34,994	( 17,994 )
Public works	73,500	44,512	28,988
Health and welfare	2,000	2,200	( 200 )
Community and economic development	<u>1,950</u>	<u>780</u>	<u>1,170</u>
TOTAL EXPENDITURES	<u>142,250</u>	<u>132,041</u>	<u>10,209</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	( 45,440 )	( 35,537 )	9,903
Fund balance, beginning of year	<u>171,599</u>	<u>171,599</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 126,159</u>	<u>\$ 136,062</u>	<u>\$ 9,903</u>

See accompanying notes to general purpose financial statements.

Township of Washington

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED  
EARNINGS - PROPRIETARY FUND

Year Ended March 31, 2004

	Proprietary Fund Type Enterprise (Pompeii Sewer)
OPERATING REVENUES	
Sewer usage charges	\$ 3,526
OPERATING EXPENSES	
Depreciation	6,025
Other	<u>3,883</u>
Operating loss	( 6,382 )
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	476
Interest expense and fiscal charges	<u>( 6,551 )</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>( 6,075 )</u>
NET LOSS	( 12,457 )
Retained earnings, beginning of year	<u>( 52,424 )</u>
Retained earnings, end of year	<u><u>\$ ( 64,881 )</u></u>

See accompanying notes to general purpose financial statements.

Township of Washington  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
Year Ended March 31, 2004

	Proprietary Fund Type Enterprise (Pompeii Sewer)
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss	\$( 6,382 )
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	6,025
Decrease in receivables	6,250
Increase in due to other governmental units	1,256
(Decrease) in accrued liabilities	<u>( 53 )</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,096
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	476
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest expense and fiscal charges	( 6,551 )
Payments on loan	( 798 )
Payments on bonds	<u>( 1,692 )</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>( 9,041 )</u>
NET (DECREASE) IN CASH DURING YEAR	( 1,469 )
Cash, beginning of year	<u>29,802</u>
Cash, end of year	<u>\$ 28,333</u>

See accompanying notes to general purpose financial statements.

Township of Washington

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS, FUND TYPES, AND ACCOUNT GROUP**

Washington Township, Michigan, was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Gratiot County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services in many areas including fire protection, roads, sewer, and planning.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present all financial activities of the Township of Washington. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of Washington Township contain all the funds and account groups controlled by the Township Board.

**2. Basis of Presentation**

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds and account group reported in the financial statements are categorized and described as follows:

**GOVERNMENTAL FUND**

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

**FIDUCIARY FUNDS**

- a. Agency Fund (Current Tax Collections) - The Agency Fund is used to account for assets held by the Township as an agent for individuals, other organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**PROPRIETARY FUND TYPES**

- a. Enterprise Funds (Pompeii Sewer) - The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Township of Washington  
NOTES TO BASIC FINANCIAL STATEMENTS  
March 31, 2004

**NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS, FUND TYPES, AND ACCOUNT GROUP - CONTINUED**

2. Basis of Presentation - continued

ACCOUNT GROUP

- a. General Fixed Assets Account Group - The General Fixed Assets Account Group is used to maintain control and cost information for all fixed assets of the Township other than those accounted for in the nonexpendable trust fund.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America as applicable to Townships. The following is a summary of the more significant accounting policies:

1. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

There is no measurement focus for agency funds since assets equal liabilities.

2. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues are generally considered available when they are received in cash (unless legally restricted to some future period) or when earned and expected to be collected soon enough after year end to pay liabilities of the current period. Significant revenues susceptible to accrual include certain intergovernmental revenues and charges for services. Most State intergovernmental revenues (i.e., income taxes, sales taxes, Act 51 funds), licenses and permits, fines and forfeits, and miscellaneous revenue sources generally are recorded as revenues when received in cash because they are not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recorded when due.

The Proprietary fund is accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Township of Washington

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Budgets and Budgetary Accounting

The General Fund budget shown in the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. There were no amendments to the originally adopted budget.

4. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking and savings accounts, money market account, and mutual funds.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value.

5. Property Tax

Washington Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Gratiot County Treasurer on March 1. The Gratiot County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2004, the Township levied 0.9991 mills per \$1,000 of assessed valuation for general governmental services. The total Taxable Value for the 2003 levy for property within the Township was \$17,015,351.

6. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets (expendable available financial resources) and current liabilities (those expected to be liquidated with expendable financial resources) are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Fixed Assets and Long-Term Liabilities - continued

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings including roads, bridges, streets and sidewalks, and drainage systems are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Sewer System	40 years
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7. Pompeii Sewer

The Pompeii Sewer project, a joint project between the Townships of Washington and Fulton, is being administered by Gratiot County. The County is responsible for paying all bills related to construction and general operations of the system along with the collecting of sewer usage and special assessment revenue. The activity has been recorded in the Township's financial statements because the system is partially owned by the Township. The Township's percentage share of the system is 33.85 percent.

8. Comparative Data

Comparative data has not been presented in the financial statements due to the Township's requirement to prepare audited financial statements only once every two years.

9. Total Columns on Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Township of Washington

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

As of March 31, 2004, the carrying amounts and bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 5,107	\$ 7,339
Money market account	24,163	24,163
Certificates of deposit	<u>105,000</u>	<u>105,000</u>
	<u>\$ 134,270</u>	<u>\$ 136,502</u>

Deposits of the Township are at federally insured banks located in the State of Michigan, with all accounts maintained in the name of the Township. As of March 31, 2004, the Township accounts were insured fully by the FDIC.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Township of Washington  
NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2004:

Cash and cash equivalents	\$ 114,270
Investments	<u>20,000</u>
	<u>\$ 134,270</u>

**NOTE D: FIXED ASSETS**

A summary of changes in general fixed assets follows:

	<u>Balance Apr. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 31, 2004</u>
Land	\$ 5,575	\$ -	\$ -	\$ 5,575
Building	36,438	-	-	36,438
Equipment	<u>11,381</u>	<u>810</u>	<u>-</u>	<u>12,191</u>
	<u>\$ 53,394</u>	<u>\$ 810</u>	<u>\$ -0-</u>	<u>\$ 54,204</u>

The following is a summary of Proprietary Fund Type property, plant, and equipment at March 31, 2004:

	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Pompeii Sewer Sewer system	<u>\$ 241,016</u>	<u>\$ 37,055</u>	<u>\$ 203,961</u>

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Township for the year ended March 31, 2004:

	<u>Balance Apr. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 31, 2004</u>
Enterprise Fund Pompeii Sewer Loan payable	\$ 16,536	\$ -	\$ 798	\$ 15,738
Revenue Bonds	<u>98,165</u>	<u>-</u>	<u>1,692</u>	<u>96,473</u>
	<u>\$ 114,701</u>	<u>\$ -0-</u>	<u>\$ 2,490</u>	<u>\$ 112,211</u>

Significant details regarding the outstanding long-term debt (including current portion) are presented below:

\$50,000 County of Gratiot, Pompeii Community Sanitary Sewer System Loan, this loan is split \$33,075 and \$16,925 between Fulton and Washington Township's respectively. The loan is dated March 31, 2003. Washington Township's annual installments range from \$838 to \$1,505 through March 31, 2018, with interest of 5.0 percent, payable annually.

\$ 15,738

Township of Washington

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE E: LONG-TERM DEBT - CONTINUED**

\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds, these bonds are split \$211,680 and \$108,320 between Fulton and Washington Township's respectively. Bonds are dated August 1, 1996. Washington Township's annual installments range from \$1,692 to \$6,770 through May 1, 2022, with interest ranging from 5.1 to 8.0 percent, payable semi-annually.

\$ 96,473

The annual requirements to pay the debt principal and interest outstanding as of March 31, 2004, are as follows:

Year Ending <u>March 31,</u>	County of Gratiot Pompeii Community <u>Sewer Bonds</u>	Fulton Township <u>Sewer Loan</u>
2005	\$ 7,238	\$ 1,625
2006	8,801	1,625
2007	8,627	1,625
2008	8,449	1,625
2009	8,268	1,625
2010-2014	44,506	8,125
2015-2019	43,454	5,816
2020-2023	<u>30,330</u>	<u>-</u>
	159,673	22,066
Less: interest	<u>( 63,200 )</u>	<u>( 6,328 )</u>
	<u>\$ 96,473</u>	<u>\$ 15,738</u>

**NOTE F: SEGMENT INFORMATION**

The Township operates the Pompeii Sewer utility providing services to the various Township residents. Segment information for the year ended March 31, 2004, is as follows:

	<u>Pompeii Sewer</u>
Operating revenue	\$ 3,526
Operating expenses	
Depreciation	6,025
Other	3,883
Operating loss	( 6,382 )
Net loss	( 12,457 )
Contributed capital	320,538
Net working capital	163,907
Total assets	372,443
Long-term liabilities	
Loan payable	15,738
Bonds payable	96,473
Total equity	255,657

Township of Washington  
NOTES TO BASIC FINANCIAL STATEMENTS  
March 31, 2004

**NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budget of the Township has been adopted at the activity level.

During the year ended March 31, 2004, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Government			
Township board	\$ 9,450	\$ 15,751	\$ 6,301
Assessor	7,600	9,469	1,869
Cemetery	3,100	3,437	337
Other	2,850	2,991	141
Public safety			
Emergency services	17,000	34,994	17,994
Health and welfare	2,000	2,200	200

**NOTE H: RETIREMENT PLAN**

The Township of Washington is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Washington Pension Plan is a money purchase defined contribution pension benefit plan. During the year ended March 31, 2004, the Township of Washington made contributions for all eligible employees at a rate of 7.5% of wages.

To be eligible to participate, an employee must be considered a full-time employee. All 5 eligible employees participate in the plan. The contributions fund the premiums for Individual Deferred Annuity policies with The Manufacturers Life Insurance Company.

For the year ended March 31, 2004, the Township of Washington had a total payroll of \$19,485. The Township of Washington Retirement Plan covered a payroll of \$17,671. The Township of Washington made contributions net of transfers and withdrawals of to the retirement plan in the amount of \$1,563.

**NOTE I: RISK MANAGEMENT**

The Township is exposed to various risks of loss including dishonesty, disappearance, destruction; computer, and in-land marine, for which the Township carries commercial insurance.

The Township also participates in a pool, the Michigan Municipal Liability and Property Pool with other municipalities for property, auto, liability, employee benefits liability, and valuable papers and records losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

Township of Washington

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2004

**NOTE J: GASB STATEMENT NO. 34**

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Township's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by the Township of Washington no later than the fiscal year ending March 31, 2006; the retroactive reporting of infrastructures, if any, is optional, but if implemented, it must be implemented no later than the year ending March 31, 2010.

**NOTE K: FUND EQUITY DEFICITS**

The following fund had a fund equity deficit at March 31, 2004:

	<u>Deficit</u>
Proprietary Fund	
Enterprise Fund	
Pompeii Sewer	\$ 64,881

**SUPPLEMENTAL FINANCIAL INFORMATION**

Township of Washington

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL

Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
Taxes			
Current tax levy	\$ 14,000	\$ 16,300	\$ 2,300
Penalties and interest	-	280	280
Payment in lieu of taxes	10	7	( 3 )
Administrative fees	-	3,792	3,792
Delinquent taxes	<u>2,000</u>	<u>2,188</u>	<u>188</u>
Total taxes	16,010	22,567	6,557
Charges for services	2,000	600	( 1,400 )
Licenses and permits			
Building permits	250	300	50
Special use permits	<u>300</u>	<u>200</u>	<u>( 100 )</u>
Total licenses and permits	550	500	( 50 )
Intergovernmental			
State revenue sharing			
Sales tax	70,000	64,973	( 5,027 )
Interest and rents			
Interest	6,600	4,025	( 2,575 )
Rentals	<u>500</u>	<u>400</u>	<u>( 100 )</u>
Total interest and rents	7,100	4,425	( 2,675 )
Special assessments			
Street light assessments	1,100	760	( 340 )
Other			
Refunds	50	58	8
Miscellaneous	<u>-</u>	<u>2,621</u>	<u>2,621</u>
Total other	<u>50</u>	<u>2,679</u>	<u>2,629</u>
TOTAL REVENUES	96,810	96,504	( 306 )
<b>EXPENDITURES</b>			
General Government			
Township Board			
Salaries	1,800	1,814	( 14 )
Pension contribution	1,800	3,042	( 1,242 )
Professional services	5,000	4,388	612
Memberships and dues	600	389	211
Advertising and legal notices	250	32	218
Zoning services	-	5,138	( 5,138 )
Miscellaneous	<u>-</u>	<u>948</u>	<u>( 948 )</u>
Total township board	9,450	15,751	( 6,301 )

Township of Washington

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES - CONTINUED			
General government - continued			
Supervisor			
Salary	\$ 1,100	\$ 812	\$ 288
Clerk			
Salary	5,500	5,222	278
Pension contribution	900	-	900
Office supplies and mileage	<u>300</u>	<u>213</u>	<u>87</u>
Total clerk	6,700	5,435	1,265
Treasurer			
Salary	6,000	6,147	( 147 )
Pension contribution	1,000	-	1,000
Office supplies and mileage	800	1,047	( 247 )
Office equipment	2,000	-	2,000
Tax roll preparation	1,800	1,816	( 16 )
Professional development	500	-	500
Miscellaneous	<u>-</u>	<u>66</u>	<u>( 66 )</u>
Total treasurer	12,100	9,076	3,024
Assessor			
Salary	6,000	5,490	510
Pension contribution	1,000	-	1,000
Office supplies and mileage	600	995	( 395 )
Computer and software	-	2,790	( 2,790 )
Professional development	<u>-</u>	<u>194</u>	<u>( 194 )</u>
Total assessor	7,600	9,469	( 1,869 )
Building and grounds			
Contracted services	900	553	347
Utilities	1,600	1,241	359
Repairs and maintenance	1,200	-	1,200
Miscellaneous	<u>300</u>	<u>160</u>	<u>140</u>
Total building and grounds	4,000	1,954	2,046
Board of review			
Per diem	800	630	170
Advertising and legal notices	<u>100</u>	<u>-</u>	<u>100</u>
Total board of review	900	630	270

Township of Washington

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES - continued			
General government - continued			
Cemetery			
Contracted services	\$ 2,600	\$ 3,300	\$ ( 700 )
Supplies	500	114	386
Advertising and legal notices	<u>-</u>	<u>23</u>	<u>( 23 )</u>
Total cemetery	3,100	3,437	( 337 )
Other			
Insurance	<u>2,850</u>	<u>2,991</u>	<u>( 141 )</u>
Total general government	47,800	49,555	( 1,755 )
Public safety			
Emergency services	17,000	33,560	( 16,560 )
Fire protection	<u>-</u>	<u>1,434</u>	<u>( 1,434 )</u>
Other			
Total public safety	17,000	34,994	( 17,994 )
Public works			
Street Lights	1,300	1,188	112
Highways, streets, and bridges			
Repairs and maintenance	57,200	37,633	19,567
Drains			
Drains at large	<u>15,000</u>	<u>5,691</u>	<u>9,309</u>
Total public works	73,500	44,512	28,988
Health and welfare			
Ambulance and rescue	2,000	2,200	( 200 )

Township of Washington

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES - continued			
Community and economic development			
Zoning board			
Per diem	\$ 1,000	\$ 780	\$ 220
Office supplies and mileage	250	-	250
Advertising and legal notices	500	-	500
Miscellaneous	<u>200</u>	<u>-</u>	<u>200</u>
Total community and economic development	<u>1,950</u>	<u>780</u>	<u>1,170</u>
TOTAL EXPENDITURES	<u>142,250</u>	<u>132,041</u>	<u>10,209</u>
EXCESS REVENUES (UNDER) EXPENDITURES	( 45,440 )	( 35,537 )	9,903
Fund balance, beginning of year	<u>171,599</u>	<u>171,599</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 126,159</u>	<u>\$ 136,062</u>	<u>\$ 9,903</u>

Township of Washington

Agency Fund

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended March 31, 2004

Current Tax Collections Fund

	Balance <u>Apr. 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>Mar. 31, 2004</u>
ASSETS				
Cash	\$ <u>2</u>	\$ <u>388,077</u>	\$ <u>387,150</u>	\$ <u>929</u>
LIABILITIES				
Due to other funds				
General	\$ 2	\$ 20,170	\$ 19,243	\$ 929
Due to other governmental units				
County				
State Education Tax	-	258,374	258,374	-0-
Other	-	1,533	1,533	-0-
St. Johns Schools	-	20,164	20,164	-0-
Ithaca Schools	-	7,650	7,650	-0-
Fulton Schools	-	46,125	46,125	-0-
Ashley Schools	-	23,063	23,063	-0-
Ovid-Elsie Schools	-	2,512	2,512	-0-
Clinton County RESA	-	8,486	8,486	-0-
TOTAL LIABILITIES	\$ <u>2</u>	\$ <u>388,077</u>	\$ <u>387,150</u>	\$ <u>929</u>

### Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



## **ABRAHAM & GAFFNEY, P.C.**

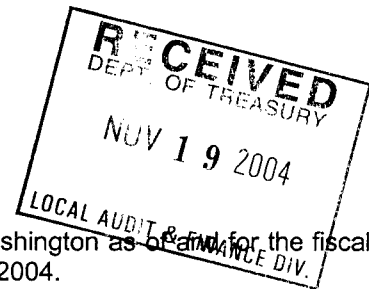
Certified Public Accountants

Member:  
American Institute of Certified  
Public Accountants  
and  
Michigan Association of  
Certified Public Accountants

### **REPORT ON INTERNAL CONTROL**

Karen A. Roka, CPA  
James A. Huguelet, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA  
Kurt M. Lemmen, CPA

**Members of the Township Board**  
Township of Washington  
Ashley, Michigan



We have audited the general purpose financial statements of the Township of Washington as presented for the fiscal year ended March 31, 2004, and have issued our report thereon dated October 13, 2004.

In planning and performing our audit of the financial statements of the Township of Washington for the fiscal year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control.

The management of the Township of Washington is responsible for establishing and maintaining an internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the general purpose financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

However, we noted certain items involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

### **CAPITAL ASSETS**

During our audit it was determined that the Township did not have a formal plan in place to prepare themselves for the implementation of the new Government Accounting Standards Board (GASB) Statement No. 34.

The Township is required to implement GASB Statement No. 34 during the 2005/2006 fiscal year. GASB No. 34 will require government-wide financial statements prepared on the full accrual basis of accounting. GASB No. 34 also requires Township management to issue a detailed letter discussing Township operations called the Management Discussion and Analysis (MD&A) among many other things required by the new statement.

In order to assist with the implementation of GASB Statement No. 34, we recommend the Township establish a capitalization threshold; complete a physical inventory of all applicable capital assets and determine the historical or estimated historical cost of each applicable item; categorize the capital assets by type (i.e., land, buildings, equipment, etc.); assign estimated useful lives to each applicable capital asset (and salvage value, if necessary); and determine the beginning balance of accumulated depreciation as of April 1, 2005.

## BOARD MINUTES

During our review of Board minutes for the year, we noted Board approval of the budgeted expenditures. However, we did note that the actual minutes of the Board meeting did not indicate the amounts that had been approved for the 03/04 budget. The original budget document is kept as a separate document. This issue was noted and reported in our audit comments two (2) years ago.

We recommend the actual Board minutes note the total approved budget amounts by activity. This will provide a better trail and documentation of Board authorization of expenditures.

## RECEIPTS/DISBURSEMENTS

During our testing of the receipt and disbursement processes, we noted that supporting documentation for various receipts and disbursements were not retained for audit purposes.

We recommend that all supporting documentation be retained for audit purposes.

## PAYROLL

During the course of our audit, it was noted that various individuals (Board members, etc.) were paid as a contractual service even though it appeared they should have been considered employees. No taxes or other withholdings were deducted, if applicable, as required if these individuals should have been considered employees and no payroll related forms were prepared (i.e., W-2's, 941's, etc.). This issue was noted and reported in our audit comments two (2) years ago.

We recommend this situation be evaluated to determine how those individuals should be treated and the appropriate steps be taken to assure accurate reporting of the amounts paid.

## AUTHORIZED PAY RATES

During the course of our audit, it was noted that the Board minutes approved specific pay rates for the employees for the year, but the employees were being paid amounts other than what was approved.

We recommend that all pay rates are properly approved by the Board and it should be subsequently assured that these rates are actually paid.

A material weakness is a condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions referred to above are not believed to be material weaknesses.

This report is intended solely for the information and use of management and the Township Board and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 13, 2004